

Message Text

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TRSE-00 H-01 NSC-05 AID-05 COME-00 EB-07 FRB-03
XMB-02 OPIC-03 LAB-04 EPG-02 SIL-01 OMB-01 /106 W
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R 011615Z JUN 77
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TO SECSTATE WASHDC 5949
INFO AMEMBASSY ANKARA
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AMEMBASSY BRUSSELS
DIA WASHDC
AMEMBASSY LONDON
USMISSION NATO
AMEMBASSY PARIS
USNMR SHAPE BEL
USCINCEUR VAIHINGEN GER
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C O N F I D E N T I A L SECTION 1 OF 2 NICOSIA 1464

USCINCEUR FOR POLAD
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BRUSSELS FOR USEEC

E.O. 11652: GDS
TAGS: PFOR, CY, TU
SUBJECT: THE ECONOMIC WARFARE ISSUE

REF: NICOSIA 1436 (DTG 311545Z MAY 77) (NOTAL)

SUMMARY: TURKISH CYPRIOTS GRADUALLY EXPAND THEIR FOREIGN
TRADE AND CONTACTS DESPITE GOC ECONOMIC MEASURES; VIEW LATTER
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IN POLITICAL TERMS AND AS INDICATION THAT GREEKS STILL SEEK
TO DOMINATE RATHER THAN COOPERATE WITH TURKISH COMMUNITY; AND
SEIZE UPON DANISH SHIP CAPTAIN CASE TO HIGHLIGHT GREEK UNREASON-
ABLENESS AND IMPOSSIBILITY OF REACHING SETTLEMENT WITHOUT
ECONOMICALLY SECURE AND SELF-CONFIDENT TURKISH CYPRIOT
COMMUNITY IN THE NORTH. RAPID PARDON OF DANISH CAPTAIN
BY MAKARIOS MAY REFLECT SOME EMBARRASSMENT ON PART OF

GOC AND DAWNING REALIZATION THAT ECONOMIC STRATEGY AGAINST TURKISH CYPRIOTS MAY IN LONGER RUN BE SHORT-SIGHTED AND COUNTER-PRODUCTIVE. LOOKING TOWARD PERIOD FOLLOWING TURKISH ELECTIONS WHEN PARTIES WILL HOPEFULLY BE IN BETTER POSITION TO PROCEED WITH MEANINGFUL NEGOTIATIONS, WE BELIEVE WE SHOULD BEGIN TO CONSIDER POSSIBLE ECONOMIC "NORMALIZATION" MEASURES BOTH SIDES COULD UNDERTAKE WHICH COULD REINFORCE AND ENCOURAGE FURTHER PROGRESS IN THE INTERCOMMUNAL NEGOTIATIONS. END SUMMARY.

1. THERE IS NO QUESTION BUT THAT THE GOC MEASURES TO ISOLATE THE "TFSC" AND OBSTRUCT IT'S FLEDGLING ECONOMIC AND COMMERCIAL RELATIONS ABROAD HAVE IMPEDED "TFSC" EFFORTS TO REVIVE AND DEVELOP ITS SHAKY ECONOMY. THOUGH IT IS IMPOSSIBLE TO GAUGE THEIR ACTUAL ECONOMIC IMPACT, THREATENED PENALTIES FOR SHIPS CALLING AT "ILLEGAL" TURKISH-CONTROLLED PORTS, LACK OF ACCESS TO CYPRUS FOREIGN EXCHANGE ACCOUNTS (PART OF WHICH ARE OWNED BY THE TURKISH CYPRIOTS), THREATS TO BLACKLIST FOREIGN TOURIST AGENCIES WHO BOOK TOURS TO THE NORTH, PENDING SUITS AGAINST IMPORTERS OF TURKISH CYPRIOT CITRUS, DIFFICULTIES IN ARRANGING CHARTER FLIGHTS (PASSENGER AND CARGO) TO AN UNRECOGNIZED AIRPORT, AND THE LACK OF DE JURE STATUS HAVE COLLECTIVELY TAKEN AN ECONOMIC TOLL. AT THE SAME TIME, HOWEVER, IT SHOULD BE NOTED THAT MANY OF THE ECONOMIC AND FOREIGN TRADE PROBLEMS IN THE NORTH STEM FROM "TFSC"'S OWN DISORGANIZATION, INEXPERIENCE, AND BLUNDERS.

2. IRONICALLY, TURKISH INDIGNATION OVER GOC "ECONOMIC WARFARE" (WHICH GOC INSISTS IS NOT WARFARE BUT THE

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LEGITIMATE DEFENSE OF GREEK CYPRIOT RIGHTS AND INTERESTS) HAS SUDDENLY AND NOISILY WELLED UP AT A TIME WHEN THE ACTUAL IMPACT AND EFFECTIVENESS OF GOC MEASURES MAY BE WANING. IN THIS REGARD, WE NOTE THE FOLLOWING:

(A) LONG-PENDING SUITS IN THE U.K. AND THE NETHERLANDS AGAINST IMPORTERS OF TURKISH CYPRIOT CITRUS WERE RESOLVED SEVERAL MONTHS AGO IN FAVOR OF THE TURKS.

(B) A BRITISH APPEALS COURT OVERTURNED IN MAY (1977) AN EARLIER RULING THAT THE "TFSC" COULD NOT ADVERTISE TOURS INVOLVING USE OF GREEK-OWNED HOTELS IN THE NORTH.

(C) "TFSC"'S VOLUME OF NON-TURKISH FOREIGN TRADE IS INCREASING AND THE TREND SEEMS LIKELY TO CONTINUE. ACCORDING TO STILL UNRELEASED "TFSC" MINISTRY OF COMMERCE REPORT, "TFSC" EXPORTS TO COUNTRIES OTHER THAN TURKEY DOUBLED IN TH 1975-76 PERIOD, TOTALLING \$10.6 MILLION (AT THEN PREVAIL-ING RATE OF TL 16.5 - \$1) OR 70 PERCENT OF ALL EXPORTS.

UK, WHICH TOOK ONE-THIRD (\$5 MILLION) OF TURKISH CYPRIOT EXPORTS IN 1976, SURPASSED TURKEY AS NORTH'S MAIN EXPORT MARKET. SIMILARLY, WHILE OVERALL IMPORTS DOUBLED IN THE 1975-76 PERIOD, IMPORTS FROM COUNTRIES OTHER THAN TURKEY MORE THAN TRIPLED TO ROUGHLY \$34 MILLION OR 52 PERCENT OF ALL IMPORTS.

(D) ALTHOUGH RECENT CONVICTION OF DANISH SHIP CAPTAIN FOR CALLING AT FAMAGUSTA (THE INCIDENT WHICH SPARKED CURRENT DEBATE OVER ECONOMIC WARFARE) MAY DETER SOME FOREIGN SHIPPING, PORT CALLS TO THE NORTH BY WEST GERMAN, DANISH, DUTCH, SPANISH, LIBYAN, LIBERIAN, LEBANESE, AND TURKISH SHIPS HAVE INCREASED MARKEDLY OVER THE LAST YEAR AND IN OUR VIEW, SEEM LIKELY TO CONTINUE. IN THIS REGARD, DANISH SHIP CAPTAIN'S PARDON, AS WELL AS FACT THAT LLOYDS OF LONDON HAD NOT (CONTRARY TO INITIAL TURKISH CYPRIOT UNDERSTANDING HERE) ISSUED ITS OWN WARNING AGAINST SHIP
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VISITS TO FAMAGUSTA, SHOULD REINFORCE TREND TOWARD INCREASED SHIPPING.

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(E) FOREIGN EXCHANGE IS INDEED A BOTTLENECK, BUT NOT AN INSUPERABLE ONE. TURKISH CYPRIOT IMPORTERS ARE ABLE TO DRAW ON STERLING DEPOSITS OF TURKISH COMMUNITY IN LONDON UNDER THE "FREE IMPORT" REGIME (BEDELSIZ ITHALAT). THEY ARE ALSO PERMITTED TO PURCHASE, ALBEIT AT PREMIUM PRICES WHICH FUEL "TFSC"'S ESTIMATED 30-35 PERCENT INFLATION RATE, HARD CURRENCY FROM TURKISH WORKERS IN EUROPE. THUS, RECENT MOVE OF CYPRUS CENTRAL BANK HALTING FLOW OF FOREIGN CONFIDENTIAL

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CURRENCY TO NORTH (THROUGH BRITISH BANK BRANCHES) FOR TURKISH CYPRIOT TRAVEL ABROAD, WHICH WAS MINIMAL IN ANY CASE, WILL NOT HAVE MUCH PRACTICAL EFFECT.

3. DESPITE MODEST BUT REAL IMPROVEMENTS IN THE ECONOMIC OUTLOOK, THE TURKISH CYPRIOT COMMUNITY AND LEADERSHIP FEEL A DEEP SENSE OF FRUSTRATION, BITTERNESS, AND INJUSTICE OVER GREEK CYPRIOT'S CONTINUING ABILITY TO EXPLOIT THEIR CONTROL OF GOC APPARATUS TO PORTRAY THEMSELVES AS THE SOLE AGGRIEVED PARTY, HARASS THE TURKS, AND DENY THEM THE FRUITS OF WHAT THEY FEEL IS THEIR MILITARY AND MORAL VICTORY. TURKS SEE GOC ECONOMIC MEASURES AS AN UPDATED VERSION OF THE DISCRIMINATORY ECONOMIC POLICIES APPLIED IN THE 1960S AND AS EVIDENCE THAT THE GREEKS STILL SEEK TO WEAKEN RATHER THAN COOPERATE WITH TURKISH COMMUNITY.

4. DENKTASH'S SHARP REACTION TO THE SENTENCING OF THE DANISH SHIP CAPTAIN WAS THEREFORE NOT MERE POSTURING OR TACTICS. IT WAS A REFLECTION OF HIS GENUINE AND INCREASINGLY STRONG CONVICTION THAT (1) GOC ECONOMIC WARFARE RAISES BASIC QUESTIONS OF PRINCIPLE AND GREEK SINCERITY IN WANTING A NEGOTIATED SETTLEMENT AND (2) THAT TURKISH COMMUNITY CANNOT POSSIBLY REACH AND AGREEMENT, LET ALONE IMPLEMENT IT, UNLESS IT FEELS ECONOMICALLY SECURE, SELF-CONFIDENT, AND ABLE TO RESIST GREEK ECONOMIC DOMINATION. AT THE SAME TIME, THE ARREST HAS PROVIDED A FORTUITOUS, PLAUSIBLE, AND VIVID ISSUE WHICH DENKTASH CAN USE TO HIGHLIGHT GREEK CYPRIOTS' (ALLEGEDLY) UNREASONABLE AND UNRECONSTRUCTED ATTITUDES,

STALL THE SUBSTANTIVE TALKS HE DOES NOT WANT, AND STRENGTHEN HIS ARGUMENTS WITH ANKARA FOR UDI SOONER RATHER THAN LATER.

5. GOC ECONOMIC ACTIONS AGAINST THE TURKS, WHILE UNDERSTANDABLE FROM AN EMOTIONAL AND LEGAL POINT OF VIEW, ARE IN OUR OPINION SHORT-SIGHTED AND COUNTER-PRODUCTIVE. (INTERESTINGLY, THE COMMONWEALTH COMMITTEE WHICH VISITED CYPRUS EARLIER IN MAY DEPARTED WITH SAME IMPRESSION
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THAT GREEK CYPRIOTS HAD BADLY MISCALCULATED.) INSTEAD OF USING THEIR OWN ECONOMIC STRENGTH AS AN ASSET TO BRING ABOUT PATTERNS OF COOPERATION AND MUTUAL INTEREST WITH THE TURKISH COMMUNITY, GOC MOVES HAVE FORCED "TFSC" INTO GREATER ECONOMIC DEPENDENCE ON TURKEY, REINFORCED THE ISLAND'S DIVISION AND TURKISH FEARS ABOUT ULTIMATE GREEK INTENTIONS, AND MADE FUTURE COOPERATION MORE DIFFICULT. MOREOVER, THE GOC HAS RUN THE RISK OF APPEARING PETTY, AND UNNECESSARILY PROVOCATIVE AT A TIME WHEN NEGOTIATIONS ARE UNDERWAY.

6. MAKARIOS' QUICK RETREAT IN PARDONING THE DANISH CAPTAIN MAY REFLECT A DEGREE OF EMBARRASSMENT OVER THE ISSUE AND SECOND THOUGHTS ABOUT THE EFFICACY AND WISDOM OF PRESSING GOC'S ECONOMIC MOVES AGAINST THE TURKS. WHILE WE ARE NOT SANGUINE THAT SUCH DOUBTS RUN VERY DEEP IN THE GREEK COMMUNITY, WE BELIEVE IT MIGHT BE USEFUL TO BEGIN GIVING THOUGHT TO MODEST "NORMALIZATION" MEASURES--ANALOGOUS TO THOSE IMPLEMENTED WHEN INTERCOMMUNAL TALKS WERE FIRST LAUNCHED IN 1968--WHICH BOTH SIDES COULD TAKE AND WHICH COULD REINFORCE AND ENCOURAGE PROGRESS IN THE NEGOTIATIONS. WE NOTE IN THIS REGARD THAT DENKTASH AND CHELIK ARE ALSO THINKING ALONG THESE LINES (REFTEL).

7. AMONG "NORMALIZATION" MEASURES WHICH MIGHT BE WORTH EXPLORING WOULD BE INCREASED TURKISH ACCESS TO REPUBLIC OF CYPRUS PASSPORTS, FREER MOVEMENT OF GOODS AND THIRD COUNTRY NATIONALS ACROSS GREEN LINE, QUITE RELAXATION OF PROHIBITIONS ON ENTRY INTO CYPRUS BY "ILLEGAL" PORTS, RENEWED TURKISH CYPRIOT ACCESS TO CENTRAL BANK'S FOREIGN EXCHANGE RESERVES, INCREASED BUSINESS AND PROFESSIONAL CONTACTS, AND THE LIKE. WHILE THERE IS ALMOST NO POSSIBILITY OF "NORMALIZATION" MOVES IN THE PRESENT CLIMATE, WE CAN FORESEE A TIME--FOLLOWING TURKISH ELECTIONS, THE FORMATION OF A HOPEFULLY STRONGER GOVERNMENT, A SECOND CLIFFORD VISIT, AND CONCRETE INDICATIONS OF TURKISH NEGOTIATING FLEXIBILITY--WHEN PARTIES MIGHT BE
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MORE RECEPTIVE TO SUCH STEPS.
CRAWFORD

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Message Attributes

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